

**KNOTT COUNTY  
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2015

Prepared by:

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## INDEPENDENT AUDITOR'S REPORT

To the Knott County Board of Education and  
State Committee for School District Audits  
Hindman, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Knott County School District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison schedules for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As described in Note Q to the financial statements, in 2015, the District adopted new accounting guidance, GASB *Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the district's proportionate share of the net pension liability, and schedule of contributions information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The additional supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements

themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*White & Associates, P.C.*

Richmond, Kentucky  
November 13, 2015

**KNOTT COUNTY SCHOOL DISTRICT-HINDMAN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED June 30, 2015**

As management of the Knott County School System (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The ending cash and investment balance from all funds for the District was \$3,378,773.
- The General Fund (Fund 1) had \$20,878,931 in revenue, which consisted of the state program (SEEK) funding, property, unmined minerals, utilities, and motor vehicle taxes. There were \$19,598,227 in General Fund expenditures, consisting primarily of salary and benefits as well as expenditures for utilities, insurances, new vehicles, computers, instructional supplies, maintenance and transportation supplies, general supplies, contract and professional services, and other items as determined by necessity. Both revenues and expenses include state on-behalf payments for insurances and retirement of \$4,390,982. In FY14 the year-end Unassigned Fund 1 Balance was \$1,670,402. For FY15, the year-end Unassigned Fund 1 balance was \$3,239,452 an increase of \$1,569,050 the increase can be attributed to additional money received through local taxes in comparison to previous years.
- The Special Revenue Fund (Fund 2) was used to receipt and expend local, state and federal grant awards.
- The Capital Outlay Fund (Fund 310) and the Building Fund (Fund 320) were used primarily for bond payments. Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. On bond issues that existed as for July 1, 2015, the district's total principal debt decreased by \$625,000 during the current fiscal year. Remaining funds were used for capital improvement projects such as property insurance, roofing at Middle School gym, replacement of flooring at Central Officer, and building maintenance.
- No new bonds were issued in FY2015.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.



**KNOTT COUNTY SCHOOL DISTRICT-HINDMAN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED June 30, 2015**

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 11 and 12 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13 - 22 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-46 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of this District, assets and deferred outflows exceeded liabilities and deferred inflows by \$6.92 million as of June 30, 2015.

The largest portion of the District's net position reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the

**KNOTT COUNTY SCHOOL DISTRICT-HINDMAN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED June 30, 2015**

**Table 1**

resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**Net Position (in Millions)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>		<b>Total Percentage Change</b>
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014-2015</b>
Assets:							
Current and Other Assets	2.13	3.71	0.58	0.72	2.71	4.43	63%
Capital Assets	15.23	15.29	0.06	0.09	15.29	15.38	1%
<b>Total Assets</b>	<b>17.36</b>	<b>19.00</b>	<b>0.64</b>	<b>0.81</b>	<b>18.00</b>	<b>19.81</b>	<b>10%</b>
<b>Deferred Outflows</b>	<b>0.22</b>	<b>0.81</b>	<b>0.00</b>	<b>0.00</b>	<b>0.22</b>	<b>0.82</b>	<b>270%</b>
Liabilities:							
Current Liabilities	1.05	1.32	0.02	0.06	1.07	1.38	29%
Noncurrent Liabilities	8.02	11.54	0.00	0.22	8.02	11.76	47%
<b>Total Liabilities</b>	<b>9.07</b>	<b>12.86</b>	<b>0.02</b>	<b>0.28</b>	<b>9.09</b>	<b>13.14</b>	<b>45%</b>
<b>Deferred Inflows</b>	<b>0.00</b>	<b>0.55</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.56</b>	<b>100%</b>
Net Position:							
Invested in Capital Assets							
Net of Debt	8.82	8.63	0.06	0.09	8.88	8.72	-2%
Restricted	0.16	0.07	0.57	0.46	0.73	0.53	-28%
Unrestricted Net Position	(1.15)	(2.32)	-	(0.01)	(1.15)	(2.33)	103%
<b>Total Net Position</b>	<b>7.83</b>	<b>6.38</b>	<b>0.63</b>	<b>0.54</b>	<b>8.46</b>	<b>6.92</b>	<b>-18%</b>

## GOVERNMENTAL ACTIVITIES

For fiscal year 2015, the district had a decrease in net position of 1.5 million.

*SEE SCHEDULE ON NEXT PAGE*

**KNOTT COUNTY SCHOOL DISTRICT-HINDMAN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED June 30, 2015**

Table 2  
Changes in Net Position  
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2014-2015
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	
Revenues:							
Charges for services	\$ 0.56	\$ 0.00	\$ 0.27	\$ 0.31	\$ 0.83	\$ 0.31	-63%
Operating grants and contributions	4.40	10.65	2.05	2.02	6.45	12.67	96%
Capital grants and contributions	-	0.56	-	-	-	0.56	
General revenues	19.53	17.23	-	-	19.53	17.23	-12%
Total revenue	<u>24.49</u>	<u>28.44</u>	<u>2.32</u>	<u>2.33</u>	<u>26.81</u>	<u>30.76</u>	15%
Expenses:							
Instruction	14.81	16.69	-	-	14.81	16.69	13%
Student	0.74	0.63	-	-	0.74	0.63	-15%
Instructional staff	0.86	0.89	-	-	0.86	0.89	3%
District administration	1.02	0.64	-	-	1.02	0.64	-37%
School administration	1.30	1.31	-	-	1.30	1.31	1%
Business	0.53	0.59	-	-	0.53	0.59	11%
Plant operation & maintenance	2.01	2.17	-	-	2.01	2.17	8%
Student transportation	2.25	2.41	-	-	2.25	2.41	7%
Community services operations	0.61	0.54	0.08	0.05	0.69	0.59	-14%
Amortization	0.04	0.05	-	-	0.04	0.05	25%
Depreciation	0.78	0.64	0.03	0.05	0.81	0.69	-15%
Interest on long-term debt	0.24	0.23	-	-	0.24	0.23	-4%
Food Service Operations	0.03	0.03	1.89	2.11	1.92	2.14	11%
Total Expenses	<u>25.22</u>	<u>26.82</u>	<u>2.00</u>	<u>2.21</u>	<u>27.22</u>	<u>29.03</u>	7%
Change in net position	\$ (0.73)	\$ 1.62	\$ 0.32	\$ 0.12	\$ (0.41)	\$ 1.74	523%

## BUSINESS-TYPE ACTIVITIES

Our proprietary funds had a decrease in non-operating funds which resulted in an \$118,478 increase in net position.

## CAPITAL ASSETS

At the end of fiscal 2015, the District had 15.37 million invested in capital assets (net of depreciation), including land, buildings, buses, computers and other equipment. This amount represents a net increase (including additions and deductions) of .01 million, which is nearly 0 % percent, over last year.

**KNOTT COUNTY SCHOOL DISTRICT-HINDMAN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED June 30, 2015**

Capital Assets at Year-End  
(Net of depreciation, in Millions)

	<b>Governmental Activities</b>		<b>Business Type Activities</b>		<b>Totals</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
<b>Land</b>	0.84	0.84			0.84	0.84
<b>Land and Improvements</b>	0.5	0.44			0.5	0.44
<b>Buildings &amp; Improvements</b>	13.16	12.84			13.16	12.84
<b>Technology Equipment</b>	0.2	0.29	0	0	0.2	0.29
<b>Vehicles</b>	0.46	0.79			0.46	0.79
<b>General Equipment</b>	0.14	0.06	0.06	0.11	0.2	0.17
<b>Construction In Progress</b>	0	0			0	0
<b>Totals</b>	<b>15.30</b>	<b>15.26</b>	<b>0.06</b>	<b>0.11</b>	<b>15.36</b>	<b>15.37</b>

## DEBT

The only new debt issued during the 2014-2015 year is the KISTA Bus Lease on 8 new buses.

Table 4  
Outstanding Debt at Year-End  
(in Millions)

		<b>Government Activities</b>	
		<b>2014</b>	<b>2015</b>
Capital Lease Obligations	\$	6.50	5.87
General Obligation Bonds		0.14	0.78
Total Obligations	\$	<u>6.64</u>	<u>6.65</u>

## Comments on Budget Comparisons

- The district's total revenues for the fiscal year ended June 30, 2015, including on-behalf payments, were \$26,582,589.
- General fund budget revenues compared to actual revenue varied slightly from line item to line item with the ending actual balance, being \$1,473,189 more than budgeted which is mostly due to increase of collections through Property, PSC, and Delinquent taxes.
- General fund budget expenditures compared to actual expenditures, varied from line item to line item with the ending actual balance being \$1,317,515 less than budget, or approximately eight percentage points.

The following table presents a summary of revenue and expense, for all funds, for the fiscal year ended June 30, 2015.

**KNOTT COUNTY SCHOOL DISTRICT-HINDMAN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED June 30, 2015**

**General Fund Revenue**

The majority of revenue was derived from local taxes (30% of total general fund revenue), with state funding making up 68% of total general fund revenue.

(In Millions)

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	6.31	0.45					0.27
State Revenue Sources	14.46	1.24	0.21	0.49		0.03	0.21
Federal Revenue Sources	0.11	2.95		0.31			1.80
Other						0.64	
Transfers	0.34	0.05				0.77	
<b>TOTALS</b>	<b>21.22</b>	<b>4.69</b>	<b>0.21</b>	<b>0.80</b>	<b>0.00</b>	<b>1.44</b>	<b>2.28</b>
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	12.07	3.06					
Student Support Services	0.39	0.25					
Instructional Staff Support Services	0.49	0.43					
District Admin Support	0.66	0.00					
School Admin Support	1.18	0.14					
Business Support Services	0.46	0.13					
Plant Operation & Management	2.17	0.03					
Student Transportation	2.08	0.10					
Food Service Operations		0.03					2.19
Community Services		0.53					
Debt Service	0.10					1.44	
Site Improvement							
Transfers	0.05		0.31	0.80			
<b>TOTALS</b>	<b>19.65</b>	<b>4.70</b>	<b>0.31</b>	<b>0.80</b>	<b>0.00</b>	<b>1.44</b>	<b>2.19</b>
Excess / (Deficit)	1.57	(0.00)	(0.10)	0.00	0.00	0.00	0.09

**BUDGETARY IMPLICATIONS**

In Kentucky, the public school fiscal year is July1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law, the budget must have a minimum 2% contingency across major funds. The district adopted a budget with \$659,673 in contingency, which was 3.5% of total budgeted revenues across the major funds. Significant concerns that impact the finances include state funding of mandated pay increases and funding programs such as reading, math, technology initiatives, and textbooks.

**KNOTT COUNTY SCHOOL DISTRICT-HINDMAN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED June 30, 2015**

Issues which will impact future budgets include:

- Funding of transportation formula
- Loss Federal Funding
- Increase in Fringe on Salaries
- CERS Spiking
- KTRS portion

Questions regarding this report should be directed to Superintendent Kim King at (606) 785-3153 or to Gregory Conn, Finance Officer at (606) 785-3153 or by mail to Knott County Board of Education, Box 869, Hindman, KY 41822.

Knott County School District  
**Statement of Net Position**  
June 30, 2015

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,697,275	\$ 681,498	\$ 3,378,773
Receivables (net)	1,016,435	1,047	1,017,482
Inventories		40,415	40,415
Capital assets:			
Land, improvements, and construction in progress	840,777		840,777
Other capital assets, net of depreciation	14,447,254	113,453	14,560,707
Total capital assets	15,288,031	113,453	15,401,484
Total assets	19,001,740	836,413	19,838,154
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
District pension contributions subsequent to the measurement date	638,009	20,283	658,292
Deferred savings from refunding bonds	175,083		175,083
Total deferred outflows of resources	813,092	20,283	833,375
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	19,814,832	856,696	20,671,529
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	227,428	55,439	282,867
Accrued interest payable	66,052		66,052
Unearned revenue	177,645		177,645
Long-term liabilities:			
Due within 1 year:			
Bond obligations	670,000		670,000
Capital lease obligations	110,749		110,749
KSBIT payable	72,568		72,568
Total due within 1 year	853,317	-	853,317
Due in more than 1 year:			
Bond obligations	5,200,000		5,200,000
Capital lease obligations	667,710		667,710
KSBIT payable	298,844		298,844
Sick leave	422,985		422,985
Net pension liability	4,958,970	218,031	5,177,001
Total due in more than 1 year	11,548,509	218,031	11,766,540
Total liabilities	12,872,950	273,470	13,146,420
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Net difference between projected and actual earnings on pension plan investments	553,657	24,342	577,999
<b>NET POSITION</b>			
Net Investment in capital assets	8,639,572	113,453	8,753,025
Restricted for:			
Capital projects	59,906		59,906
Food services		456,537	456,537
Other purposes	9,278		9,278
Deficit	(2,320,532)	(11,105)	(2,331,637)
Total net position	6,388,225	558,885	6,947,110
<b>TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	\$ 19,814,832	\$ 856,696	\$ 20,671,529

See the accompanying notes to the financial statements.

Knott County School District  
**Statement of Activities**  
Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 16,693,800	\$ -	\$ 6,990,728	\$ -	\$ (9,703,072)		\$ (9,703,072)
Support Services							
Student	629,181	12,255	249,741		(367,184)		(367,184)
Instructional Staff	889,688		353,145		(536,543)		(536,543)
District Administration	644,146		255,682		(388,465)		(388,465)
School Administration	1,310,090		520,015		(790,075)		(790,075)
Business	592,801		235,301		(357,500)		(357,500)
Plant Operation & Maintenance	2,166,737		860,045	523,344	(783,348)		(783,348)
Student Transportation	2,412,864		957,740		(1,455,124)		(1,455,124)
Food Service Operation	28,640		11,368		(17,272)		(17,272)
Community Services Operations	539,469		214,132		(325,337)		(325,337)
Amortization	46,405				(46,405)		(46,405)
Depreciation	640,688				(640,688)		(640,688)
Interest on long-term debt	231,056			34,695	(196,361)		(196,361)
Total governmental activities	26,825,565	12,255	10,647,897	558,039	(15,607,374)		(15,607,374)
Business-type activities:							
Food service operations	2,112,076	261,469	2,014,100			\$ 163,494	163,494
Day care operations	54,734	47,298	7,210			(226)	(226)
Depreciation	23,585					(23,585)	(23,585)
Total business-type activities	2,190,395	308,767	2,021,310	-	-	139,682	139,682
Total primary government	\$ 29,015,959	\$ 321,022	\$ 12,669,207	\$ 558,039	\$ (15,607,374)	139,682	\$ (15,467,692)
General revenues:							
Taxes:			10,647,897				
Property taxes					4,951,570		4,951,570
Delinquent property taxes					450,626		450,626
Motor vehicle taxes					460,219		460,219
Utility taxes					894,358		894,358
State and formula grants					9,979,550		9,979,550
Other local revenue					470,289		470,289
Unrestricted investment earnings					23,081	5,328	28,409
Total general revenues					17,229,691	5,328	17,235,019
Change in net position					1,622,317	145,010	1,767,328
Net position - beginning					8,513,776	631,462	9,145,238
Prior Period Adjustment-1					(4,948,918)	(217,588)	(5,166,506)
Prior Period Adjustment-2					1,201,050		1,201,050
Restated net position - beginning					4,765,908	413,874	5,179,782
Net position - ending					\$ 6,388,225	\$ 558,885	\$ 6,947,110

See the accompanying notes to the financial statements.



Knott County School District  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2015

	<b>Governmental Funds</b>				
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,030,288	\$ -	\$ -	\$ 69,287	\$ 3,099,575
Receivables, net					
Taxes-current	57,294	71,309			128,603
Taxes-delinquent	160,689				160,689
Accounts	131,397				131,397
Intergovernmental-state		2,500			2,500
Intergovernmental-federal	2,634	590,612			593,246
Total assets	<u>3,382,301</u>	<u>664,421</u>	<u>-</u>	<u>69,287</u>	<u>4,116,010</u>
<b>LIABILITIES</b>					
Accounts payable	142,850	84,476		103	227,428
Cash shortage		402,300			402,300
Unearned revenue		177,645			177,645
Total liabilities	<u>142,850</u>	<u>664,421</u>	<u>-</u>	<u>103</u>	<u>807,373</u>
<b>FUND BALANCE</b>					
Restricted				59,906	59,906
Committed				9,278	9,278
Unassigned	3,239,452				3,239,452
Total fund balance	<u>3,239,452</u>	<u>-</u>	<u>-</u>	<u>69,184</u>	<u>3,308,636</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 3,382,301</u>	<u>\$ 664,421</u>	<u>\$ -</u>	<u>\$ 69,287</u>	<u>\$ 4,116,010</u>

See the accompanying notes to the financial statements.

Knott County School District  
**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position**  
June 30, 2015

<b>Fund balances-total governmental funds</b>	<b>\$ 3,308,636</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	15,288,031
Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus	175,083
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds	
Accrued interest payable	(66,052)
Bonds payable	(6,648,459)
KSBIT payable	(371,412)
Sick leave liability	(422,985)
Net pension liability	(4,958,970)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds	
Deferred outflows of resources related to employer 2015 contributions to pensions	638,009
Deferred inflows of resources related to pensions	<u>(553,657)</u>
<b>Net position of governmental activities</b>	<b>\$ <u><u>6,388,225</u></u></b>

See the accompanying notes to the financial statements.

Knott County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
Year Ended June 30, 2015

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
From Local Sources					
Taxes					
Property	\$ 4,460,348	\$ -	\$ -	\$ 491,222	\$ 4,951,570
Delinquent property tax	450,626				450,626
Motor vehicle	460,219				460,219
Utilities	894,358				894,358
Earnings on investments	22,840	240			23,081
Other local revenue	19,837	450,452			470,289
Intergovernmental - state	14,462,764	1,243,879	34,695	523,344	16,264,681
Intergovernmental - federal	107,940	2,947,571			3,055,511
Student activities				12,255	12,255
Total revenues	<u>20,878,931</u>	<u>4,642,142</u>	<u>34,695</u>	<u>1,026,821</u>	<u>26,582,589</u>
<b>EXPENDITURES</b>					
Instruction	12,074,388	3,061,604		2,977	15,138,969
Support Services					
Student	394,780	250,218			644,999
Instructional Staff	486,901	427,440			914,341
District Administration	660,846				660,846
School Administration	1,179,512	135,440			1,314,951
Business	458,231	128,366			586,597
Plant Operation & Maintenance	2,168,884	24,982			2,193,866
Student Transportation	2,079,448	102,922			2,182,369
Food Service Operation		28,640			28,640
Community Services Operations		533,848			533,848
Debt Service	95,236		820,350		915,585
Total expenditures	<u>19,598,227</u>	<u>4,693,459</u>	<u>820,350</u>	<u>2,977</u>	<u>25,115,013</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	1,280,704	(51,317)	(785,655)	1,023,844	1,467,576
<b>OTHER FINANCING SOURCES (USES)</b>					
Bond proceeds			635,000		635,000
Underwriters discount			(4,986)		(4,986)
Payment to escrow			(617,062)		(617,062)
Operating transfers in	339,663	51,317	772,703		1,163,682
Operating transfers (out)	(51,317)			(1,112,365)	(1,163,682)
Total other financing sources and (uses)	<u>288,346</u>	<u>51,317</u>	<u>785,655</u>	<u>(1,112,365)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	1,569,050	-	-	(88,521)	1,480,529
<b>FUND BALANCE-BEGINNING</b>	<u>1,670,402</u>	<u>-</u>	<u>-</u>	<u>157,706</u>	<u>1,828,108</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 3,239,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,184</u>	<u>\$ 3,308,636</u>

See the accompanying notes to the financial statements.

Knott County School District  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities**  
Year ended June 30, 2015

<b>Net change in fund balances-total governmental funds</b>	<b>\$ 1,480,529</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	
District pension contributions less costs of benefits earned net employee contributions	74,300
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	53,498
The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue.	(46,405)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.	(7,540)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	
Accrued interest payable	6,658
KSBIT payable	134,470
Noncurrent sick leave payable	(73,192)
<b>Change in net position of governmental activities</b>	<b>\$ <u>1,622,317</u></b>

See the accompanying notes to the financial statements.

Knott County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
From Local Sources				
Taxes				
Property	\$ 3,500,000	\$ 3,500,000	\$ 4,460,348	\$ 960,348
Delinquent property tax	140,000	140,000	450,626	310,626
Motor vehicle	419,000	419,000	460,219	41,219
Utilities	875,000	875,000	894,358	19,358
Earnings on investments	20,000	20,000	22,840	2,840
Tuition				-
Student activities	1,000	1,000		(1,000)
Other local revenue	43,000	43,000	19,837	(23,163)
Intergovernmental - state	9,981,760	9,981,760 *	10,071,782	90,022
Intergovernmental - federal	35,000	35,000	107,940	72,940
Total revenues	<u>15,014,760</u>	<u>15,014,760</u>	<u>16,487,949</u>	<u>1,473,189</u>
<b>EXPENDITURES</b>				
Instruction	8,969,324	8,972,796 *	8,773,676	199,120
Support Services				
Student	335,290	335,290 *	306,365	28,925
Instructional Staff	349,304	349,304 *	339,497	9,807
District Administration	1,507,005	843,860 *	638,713	205,147
School Administration	922,608	922,608 *	917,306	5,302
Business	380,903	380,903 *	371,377	9,526
Plant Operation & Maintenance	1,926,373	1,926,373 *	2,005,279	(78,906)
Student Transportation	2,038,717	2,038,717 *	1,759,796	278,921
Debt Service	95,236	95,236	95,236	0
Total expenditures	<u>16,524,760</u>	<u>15,865,087</u>	<u>15,207,245</u>	<u>657,842</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(1,510,000)	(850,327)	1,280,704	2,131,031
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in (out)	(35,000)	(35,000)	288,346	323,346
Total other financing sources and (uses)	<u>(35,000)</u>	<u>(35,000)</u>	<u>288,346</u>	<u>323,346</u>
<b>NET CHANGE IN FUND BALANCE</b>	(1,545,000)	(885,327)	1,569,050	2,454,377
<b>FUND BALANCE-BEGINNING</b>	<u>1,545,000</u>	<u>1,545,000</u>	<u>1,670,402</u>	<u>125,402</u>
<b>FUND BALANCE-ENDING</b>	\$ <u>-</u>	\$ <u>659,673</u>	\$ <u>3,239,452</u>	\$ <u>2,579,779</u>

\* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$4,390,982.

See the accompanying notes to the financial statements.

Knott County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Special Revenue Fund**  
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
From Local Sources				
Earnings on investments	\$ -	\$ -	\$ 240	\$ 240
Other local revenue			450,452	450,452
Intergovernmental - state	1,341,104	1,315,804	1,243,879	(71,925)
Intergovernmental - federal	2,737,046	2,752,219	2,947,571	195,352
Total revenues	<u>4,078,150</u>	<u>4,068,023</u>	<u>4,642,142</u>	<u>574,119</u>
<b>EXPENDITURES</b>				
Instruction	2,673,025	2,692,084	3,061,604	(369,520)
Support Services				
Student	366,694	366,694	250,218	116,476
Instructional Staff	409,207	409,106	427,440	(18,334)
School Administration		6,000	135,440	(129,440)
Business	130,527	130,527	128,366	2,161
Plant Operations & Maintenance	57,084	57,084	24,982	32,102
Student Transportation	69,901	69,901	102,922	(33,021)
Food Service Operation	20,000	20,000	28,640	(8,640)
Community Services Operations	386,712	387,480	533,848	(146,368)
Total expenditures	<u>4,113,150</u>	<u>4,138,876</u>	<u>4,693,459</u>	<u>(554,583)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(35,000)	(70,853)	(51,317)	19,536
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in (out)	35,000	70,853	51,317	(19,536)
Total other financing sources and (uses)	<u>35,000</u>	<u>70,853</u>	<u>51,317</u>	<u>(19,536)</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-	-
<b>FUND BALANCE-BEGINNING</b>			-	-
<b>FUND BALANCE-ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Knott County School District  
**Statement of Net Fund Position**  
**Proprietary Funds**  
June 30, 2015

	Enterprise Funds		
	School Food Services	Other Proprietary Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 682,546	\$ -	\$ 682,546
Inventories	40,415		40,415
Accounts receivable, net		1,047	1,047
Capital assets:			
Other capital assets, net of depreciation	113,453		113,453
Total assets	<u>836,413</u>	<u>1,047</u>	<u>837,461</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
District pension contributions subsequent to the measurement date	<u>19,269</u>	<u>1,014</u>	<u>20,283</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>855,682</u>	<u>2,061</u>	<u>857,744</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	55,439		55,439
Cash shortage		1,047	1,047
Net pension liability	207,129	10,902	218,031
Total liabilities	<u>262,568</u>	<u>11,949</u>	<u>274,517</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Net difference between projected and actual earnings on pension plan investments	23,125	1,217	24,342
<b>NET POSITION</b>			
Net Investment in capital assets	113,453	-	113,453
Restricted for:			
Expendable Restricted for Food Service	456,537		456,537
Deficit		(11,105)	(11,105)
Total net position	<u>569,990</u>	<u>(11,105)</u>	<u>558,885</u>
<b>TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 855,682</u>	<u>\$ 2,061</u>	<u>\$ 857,744</u>

See the accompanying notes to the financial statements.

Knott County School District  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
Year Ended June 30, 2015

	<b>Enterprise Funds</b>		
	<b>School Food Services</b>	<b>Other Proprietary Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Lunchroom sales	\$ 261,469	\$ -	\$ 261,469
Tuition		47,298	47,298
Total operating revenues	<u>261,469</u>	<u>47,298</u>	<u>308,767</u>
<b>OPERATING EXPENSES</b>			
Depreciation	23,585		23,585
Day Care Operations			
Employee services		35,455	35,455
Operational expenses		19,279	19,279
Food service operations			
Employee services	743,403		743,403
Operational expenses	1,368,673		1,368,673
Total operating expenses	<u>2,135,661</u>	<u>54,734</u>	<u>2,190,395</u>
<b>OPERATING INCOME (LOSS)</b>	(1,874,192)	(7,436)	(1,881,628)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Federal grants	1,804,188		1,804,188
State grants	209,912	7,210	217,123
Earnings from investments	5,328		5,328
Total nonoperating revenues	<u>2,019,428</u>	<u>7,210</u>	<u>2,026,638</u>
<b>CHANGE IN NET POSITION</b>	145,236	(226)	145,010
<b>NET POSITION-BEGINNING</b>	631,462	-	631,462
PRIOR PERIOD ADJUSTMENT	(206,709)	(10,879)	(217,588)
<b>RESTATED NET POSITION-BEGINNING</b>	<u>424,753</u>	<u>(10,879)</u>	<u>413,874</u>
<b>NET POSITION-ENDING</b>	<u>\$ 569,990</u>	<u>\$ (11,105)</u>	<u>\$ 558,885</u>

See the accompanying notes to the financial statements.



Knott County School District  
**Statement of Cash Flows**  
**Proprietary Funds**  
Year Ended June 30, 2015

	Enterprise Funds		
	School Food Services	Other Proprietary Funds	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 261,469	\$ 47,298	\$ 308,767
Payments to suppliers	(1,332,905)	(18,987)	(1,351,891)
Payments to employees	(743,403)	(35,455)	(778,858)
Net cash provided (used) by operating activities	<u>(1,814,838)</u>	<u>(7,144)</u>	<u>(1,821,982)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Intergovernmental revenue	2,014,100	7,210	2,021,310
Net pension liability	4,276	226	4,502
Net cash provided (used) by noncapital financing activities	<u>2,018,376</u>	<u>7,436</u>	<u>2,025,812</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>			
Purchase of capital assets	(74,334)		(74,334)
Net cash provided (used) by capital financing activities	<u>(74,334)</u>	<u>-</u>	<u>(74,334)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest	5,328		5,328
Net cash provided (used) by investing activities	<u>5,328</u>	<u>-</u>	<u>5,328</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	134,532	292	134,824
<b>CASH BALANCE-BEGINNING</b>	<u>548,014</u>	<u>(1,340)</u>	<u>546,674</u>
<b>CASH BALANCE-ENDING</b>	<u>\$ 682,546</u>	<u>\$ (1,047)</u>	<u>\$ 681,498</u>
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>			
Operating income (loss)	\$ (1,874,192)	\$ (7,436)	\$ (1,881,628)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation	23,585	-	23,585
Changes in assets and liabilities:			
Accounts payable	41,327	(1,765)	39,562
Receivables		2,058	2,058
Inventories	(5,559)		(5,559)
Net cash provided (used) by operating activities	<u>\$ (1,814,838)</u>	<u>\$ (7,144)</u>	<u>\$ (1,821,982)</u>

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$100,322 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for -on-behalf payments relating to fringe benefits in the amount of \$194,843 provided by state government.

See the accompanying notes to the financial statements.

Knott County School District  
**Statement of Fiduciary Net Position -**  
**Fiduciary Funds**  
June 30, 2015

	<u>School Activity Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 231,028
Total assets	<u>231,028</u>
<b>LIABILITIES</b>	
Accounts payable	242
Due to student groups	<u>230,786</u>
Total Liabilities	<u>231,028</u>
<b>NET POSITION HELD IN TRUST</b>	<u>-</u>
<b>TOTAL LIABILITIES AND NET POSITION HELD IN TRUST</b>	\$ <u>231,028</u>

See the accompanying notes to the financial statements.

KNOTT COUNTY SCHOOL DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
YEAR ENDED JUNE 30, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Knott County Board of Education (“Board”), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Knott County Board of Education (“District”). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100-Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Knott County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Blended Component Unit

The Board authorized establishment of the Knott County Board of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Knott County Board of Education.

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

### I. Governmental Fund Types

#### (A) General Fund

The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

#### (B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. KDE requires this fund to be a major fund.

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **(C) Special Revenue (District Activity) Fund**

The Special Revenue (District Activity) Fund is a district activity fund at the school level. It includes revenues such as yearbook sales, picture sales, student fees, and donations.

### **(D) Capital Project Funds**

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

#### **SEEK Capital Outlay Fund**

The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects as identified in the District's facility plan.

#### **Building (FSPK) Fund**

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.

#### **Construction Fund**

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling.

### **(E) Debt Service Fund**

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

## **II. Proprietary Funds (Enterprise Funds)**

### **(A) Food Service Fund**

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund.

### **(B) Childcare Fund**

The Childcare Fund is used to account for child care activities.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District applies all GASB pronouncements to proprietary funds.

### III. Fiduciary Fund Types

#### (A) Agency Funds

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The schools funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds.”

#### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Unearned revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement the revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

### Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. The property tax rates assessed (including exonerations) for the year ended June 30, 2015, to finance the General Fund operations were \$.61 per \$100 valuation of real property, \$.61 per \$100 valuation for business personal property and \$.475 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

### Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the government funds. These assets are reported in the government activities column of the government-wide financial statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

*SEE SCHEDULE ON NEXT PAGE*

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

### Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

The Special Revenue Fund had \$554,583 of expenditures in excess of appropriations.

### Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

### Inventories

On government-wide financial statements, including the proprietary fund, inventories are stated at cost, on the first-in, first-out basis, using the accrual method of accounting.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

### Prepaid Assets

Payments made that will benefit periods beyond June 30, 2008 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgment, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

### Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose; unassigned amounts are reported only in the General Fund unless a fund has a deficit.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **Net Position**

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as Net Position. Net Position are reported in three categories: 1) net investment in capital assets – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or net investment in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

### **Operating and Non-Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

### **Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

### **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the State of Kentucky (“KTRS”) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### Estimates

The process of preparing financial statements in conformity accounting principles generally accepted in the United States of America requires District’s management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenditures, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

### New Accounting Pronouncements

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, “Accounting and Financial Reporting for Pensions” (GASB 68). GASB 68 replaced the requirements of GASB 27, “Accounting for Pensions by State and Local Governmental Employers” and GASB 50, “Pension Disclosures”, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

## **NOTE B – CASH AND CASH EQUIVALENTS**

The District’s cash and cash equivalents were interest bearing demand accounts at a local bank. Due to the liquidity nature of these accounts the carrying value is the fair market value. Federal Depository Insurance and pledged securities covers all account balances.

*SEE SCHEDULE ON NEXT PAGE*

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		<b>Bank Balance</b>
		<u><b>Demand</b></u>
FDIC	\$	250,000
Securities pledged to district		<u>4,209,571</u>
Bank balance	\$	<u><u>4,459,571</u></u>
		<b>Book Balance</b>
		<u><b>Cash and equivalents</b></u>
Governmental Activities	\$	2,697,275
Business-type Activities		681,498
Agency funds		<u>231,028</u>
Total carrying amount	\$	<u><u>3,609,801</u></u>

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK/Building) Fund, special Revenue (Grant Fund), Debt Service Fund, School Construction Fund, School Food Service Fund, and School Activity Fund.

### NOTE C – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

*SEE SCHEDULE ON NEXT PAGE*

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<b><u>Governmental Activities</u></b>	<b><u>July 1, 2014</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>June 30, 2015</u></b>
Land	\$ 840,777	\$ -	\$ -	\$ 840,777
Land improvements	1,882,680	-	-	1,882,680
Buildings	23,314,364	-	-	23,314,364
Technology equipment	2,207,844	226,132	-	2,433,976
Vehicles	3,189,804	465,609	-	3,655,413
General equipment	941,814	2,445	-	944,259
Construction in progress	-	-	-	-
Total at historical cost	\$ <u>32,377,283</u>	\$ <u>694,186</u>	\$ <u>-</u>	\$ <u>33,071,469</u>
Less: Accumulated depreciation				
Land improvements	\$ 1,384,916	\$ 63,524	\$ -	\$ 1,448,440
Buildings	10,152,253	317,374	-	10,469,627
Technology equipment	2,009,516	136,732	-	2,146,248
Vehicles	2,733,687	102,607	-	2,836,293
General equipment	<u>862,379</u>	<u>20,451</u>	<u>-</u>	<u>882,830</u>
Total accumulated depreciation	\$ <u>17,142,750</u>	\$ <u>640,687.82</u>	\$ <u>-</u>	\$ <u>17,783,438</u>
Governmental Activities				
Capital Assets-net	\$ <u>15,234,533</u>	\$ <u>53,498</u>	\$ <u>-</u>	\$ <u>15,288,031</u>
<b><u>Business-Type Activities</u></b>	<b><u>July 1, 2014</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>June 30, 2015</u></b>
Vehicles	\$ -	\$ -	\$ -	\$ -
Technology equipment	13,949	-	-	13,949
General equipment	<u>822,505</u>	<u>74,334</u>	<u>-</u>	<u>896,839</u>
Total at historical cost	\$ <u>836,453</u>	\$ <u>74,334</u>	\$ <u>-</u>	\$ <u>910,787</u>
Less: Accumulated depreciation				
Vehicles	-	-	-	-
Technology equipment	12,941	457	-	13,398
General equipment	<u>760,808</u>	<u>23,128</u>	<u>-</u>	<u>783,936</u>
Total accumulated depreciation	\$ <u>773,749</u>	\$ <u>23,585</u>	\$ <u>-</u>	\$ <u>797,335</u>
Business-Type Activities				
Capital Assets-net	\$ <u>62,704</u>	\$ <u>50,749</u>	\$ <u>-</u>	\$ <u>113,453</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE D – BONDED DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt obligations represent the District's future obligations to make payments relating to the bonds issued by the Knott County School District Finance Corporation aggregating \$5,870,000 and \$670,000 is the portion due within one year.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Knott County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2015 are summarized below:

<u>Bond Issue</u>	<u>Original</u>		<u>Maturity</u>		<u>Interest</u>		<u>2014 Outstanding</u>		<u>2015 Outstanding</u>	
	<u>Amount</u>	<u>Dates</u>	<u>Rates</u>		<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>		
9/1/2002	\$ 1,820,000	2/1/2015	1.25 - 4%	\$	50,000	\$ -	\$ 50,000	\$	-	
7/1/2003	1,370,000	9/1/2014	2.7 - 4.1%		680,000	-	680,000		-	
9/1/2014	635,000	9/1/2023	2%		-	635,000	5,000		630,000	
6/1/2009	790,000	2/1/2016	2 - 2.5%		240,000	-	115,000		125,000	
4/1/2011	\$ 5,970,000	8/1/2022	1.0 - 3.0%		<u>5,525,000</u>	<u>-</u>	<u>410,000</u>		<u>5,115,000</u>	
Totals				\$	<u>6,495,000</u>	\$ <u>635,000</u>	\$ <u>1,260,000</u>	\$	<u>5,870,000</u>	

The District has entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2015 for debt service, (principal and interest) are as follows:

*SEE SCHEDULE NO NEXT PAGE*

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>YEAR</u>	<u>LOCAL</u>		<u>KSFCC</u>		<u>TOTAL</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2016	\$ 640,570	\$ 136,428	\$ 29,430	\$ 5,266	\$ 670,000	\$ 141,694
2017	649,976	121,648	30,024	4,671	680,000	126,319
2018	664,369	107,729	30,631	4,065	695,000	111,794
2019	688,750	91,810	31,250	3,446	720,000	95,256
2020	693,120	74,332	31,880	2,815	725,000	77,147
2021-2024	2,255,211	101,396	124,789	4,779	2,380,000	106,175
	<u>\$ 5,591,996</u>	<u>\$ 633,343</u>	<u>\$ 278,004</u>	<u>\$ 25,042</u>	<u>\$ 5,870,000</u>	<u>\$ 658,384</u>

### NOTE E – CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease by class:

<u>KISTA Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>2014</u>		<u>2015</u>	
			<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
5/1/2008	\$ 363,430	5/1/2018	\$ 143,857	\$ -	\$ 37,857	\$ 106,000
3/1/2015	\$ 672,459	3/1/2025	<u>-</u>	<u>672,459</u>	<u>-</u>	<u>672,459</u>
Totals			<u>\$ 143,857</u>	<u>\$ 672,459</u>	<u>\$ 37,857</u>	<u>\$ 778,459</u>

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2015:

<u>Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Payments</u>
2016	\$ 110,749	\$ 16,991	\$ 127,740
2017	106,680	14,478	121,158
2018	98,778	12,473	111,251
2019	65,193	10,126	75,319
2020	66,476	8,822	75,298
2021-2025	<u>330,583</u>	<u>23,019</u>	<u>353,602</u>
	<u>\$ 778,459</u>	<u>\$ 85,908</u>	<u>\$ 864,367</u>

Total minimum lease payments	\$864,367
Less: Amount representing interest	<u>(85,908)</u>

Present Value of Net Minimum Lease Payments	<u>\$778,459</u>
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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE F – OTHER LONG TERM OBLIGATIONS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. The activity during fiscal year 2015 for accumulated sick leave is as follows:

	<b>2014</b>				<b>2015</b>
	<b>Outstanding</b>		<b>Additions</b>	<b>Retirements</b>	<b>Outstanding</b>
	<b><u>Balance</u></b>				<b><u>Balance</u></b>
Sick Leave	\$ 349,792	\$ 73,193	\$ -		\$ 422,985
Totals	<u>\$ 349,792</u>	<u>\$ 73,193</u>	<u>\$ -</u>		<u>\$ 422,985</u>

The District elected to take advantage of the 0% interest option repayment plan for the worker's compensation and property and liability insurance deficit with the now defunct Kentucky School Board Insurance Trust. The repayment plan required the District to pay 25% of the worker's compensation deficit during fiscal year 2015 with the remaining balance to be repaid over the next six years, and to pay 40% of the property and liability deficit during fiscal year 2015 with the remaining balance to be repaid over the next two years. The activity during fiscal year 2015 for the worker's compensation and property and liability deficit are as follows:

	<b>2014</b>				<b>2015</b>
	<b>Outstanding</b>		<b>Additions</b>	<b>Retirements</b>	<b>Outstanding</b>
<b><u>Insurance Fund</u></b>	<b><u>Balance</u></b>				<b><u>Balance</u></b>
Worker's Compensation	\$ 452,554		\$ 113,139		\$ 339,415
Property and Liability	53,328		21,331		31,997
Totals	<u>\$ 505,882</u>	<u>\$ -</u>	<u>\$ 134,470</u>		<u>\$ 371,412</u>

The minimum payments are as follows:

<b>Fiscal Year</b>	
<b>Ended June 30,</b>	<b><u>Payment</u></b>
2016	\$ 72,568
2017	72,568
2018	56,569
2019	56,569
2020	56,569
2021	56,569
<b>Total</b>	<u><u>\$ 371,412</u></u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE G – RETIREMENT PLANS

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

#### **General information about the County Employees Retirement System Non-Hazardous ("CERS")**

*Plan description*—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

*Benefits provided*—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
	Reduced retirement	Not available
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Contributions—Required contributions by the employee are based on the tier:

		<u>Required contribution</u>
Tier	1	5%
Tier	2	5% + 1% for insurance
Tier	3	5% + 1% for insurance

### **General information about the Teachers' Retirement System of the State of Kentucky ("KTRS")**

*Plan description*—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at [http://www.ktrs.ky.gov/05\\_publications/index.htm](http://www.ktrs.ky.gov/05_publications/index.htm).

*Benefits provided*—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

### **Medical Insurance Plan**

*Plan description*—In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

*Funding policy*—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of CERS net pension liability	\$ 5,177,001
Commonwealth's proportionate share of the KTRS net pension liability associated with the district	<u>73,330,730</u>
	<u>\$ 78,507,731</u>

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportion was .159563% (percent).

For the year ended June 30, 2015, the District recognized pension expense of \$588,493 related to CERS and \$6,458,328 related to KTRS. The District also recognized revenue of \$6,458,328 for KTRS support provided by the Commonwealth. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	577,999
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>658,292</u>	<u>-</u>
	<u>\$ 658,292</u>	<u>\$ 578,000</u>

\$658,292 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	<u>Year Ended June 30,</u>
2016	\$ 131,658
2017	131,658
2018	131,658
2019	131,658
2020	<u>131,658</u>
	<u>\$ 658,292</u>

*Actuarial assumptions*—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.75%	7.50%

For CERS, mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	100.0%	

*Discount rate*—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

*Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate*—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	5,844,796	5,177,001	4,508,842
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-

*Pension plan fiduciary net position*—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

### NOTE H – COMMITMENTS

The District has committed \$9,728 in the district activity fund for district activities.

### NOTE I - CONTINGENCIES

The District receives funding from Federal, State and Local governmental agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction the funds provided are being spent as intended and the grantors' intent to continue their program.

### NOTE J - LITIGATION

The Knott County School District does not have any material pending litigation.

### NOTE K – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, illegal acts etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include Workers' Compensation insurance.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers' compensation, unemployment, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

### NOTE M – DEFICIT FUND AND OPERATING BALANCES

The following funds had an operating deficit at the end of the fiscal year causing a reduction in balance:

<u>Fund</u>	<u>Reduction in</u> <u>Fund Balance / Net Position</u>	
Capital Outlay	\$	(96,319)
FSPK		(1,481)
School Activity	\$	(12,595)

### NOTE N - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

### NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Operations	General Fund	Special Revenue Fund	KETS	\$ 51,317
Operations	FSPK Fund	General Fund	Operations	29,526
Operations	Capital Outlay Fund	General Fund	Operations	310,137
Debt Service	FSPK Fund	Debt Service Fund	Debt Payments	\$ 772,703



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE P – ON-BEHALF PAYMENTS

For fiscal year 2015, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$ 1,728,062
Health Insurance	2,922,634
Life Insurance	5,181
Administrative Fee	35,627
HRA/Dental/Vision	118,038
Federal Reimbursement	(272,081)
Technology	55,575
SFCC Debt Service Payments	<u>34,695</u>
Total	\$ <u>4,627,730</u>

These amounts are included in the financial statements as state revenue and an expense allocated to the different functions in the same proportion as full-time employees.

### NOTE Q – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$5,166,506 reduction in beginning net position on the Statement of Activities and an increase of \$691,493 of deferred outflows of resources – District contributions subsequent to the measurement date.

### NOTE R – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 12,376	Future Construction
Capital Outlay	16,626	SFCC Requirements
FSPK	30,904	SFCC Requirements
Food Service	\$ 456,537	Food Service Operations

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **NOTE S– SUBSEQUENT EVENTS**

The District has evaluated subsequent events through November 13, 2015, the date the financial statements were available to be issued.

KNOTT COUNTY SCHOOL DISTRICT  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

	Reporting Fiscal Year (Measurement Date) 2015 (2014)
<b>COUNTY EMPLOYEE'S RETIREMENT SYSTEM:</b>	
Districts' proportion of the net pension liability	0.16%
District's proportionate share of the net pension liability	\$ 5,177,001
State's proportionate share of the net pension liability associated with the District	-
Total	<u>\$ 5,177,001</u>
District's covered-employee payroll	\$ 3,677,355
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	140.78%
Plan fiduciary net position as a percentage of the total pension liability	66.80%
<b>KENTUCKY TEACHER'S RETIREMENT SYSTEM:</b>	
Districts' proportion of the net pension liability	0.357%
District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	73,330,730
Total	<u>\$ 73,330,730</u>
District's covered-employee payroll	\$ -
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

**Note:** Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the accompanying notes to the required supplementary information.

**KNOTT COUNTY SCHOOL DISTRICT  
SCHEDULE OF CONTRIBUTIONS**

	<u>2015</u>	<u>2014</u>
<b>COUNTY EMPLOYEE'S RETIREMENT SYSTEM:</b>		
Contractually required contribution	\$ 658,292	\$ 694,654
Contributions in relation to the contractually required contribution	<u>\$ 658,292</u>	<u>\$ 694,654</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 3,725,574	\$ 3,677,355
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	17.67%	18.89%
 <b>KENTUCKY TEACHER'S RETIREMENT SYSTEM:</b>		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ -	\$ -
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	0.00%	0.00%

**Note:** Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the accompanying notes to the required supplementary information.

KNOTT COUNTY SCHOOL DISTRICT  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
For the year ended June 30, 2015

*Changes of benefit terms* – None

*Changes of assumptions* – None

Knott County School District  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
June 30, 2015

	<b>Other Governmental Funds</b>				
	<b>Capital Outlay</b>	<b>Construction Fund</b>	<b>FSPK Fund</b>	<b>District Activity</b>	<b>Total</b>
<b>Assets</b>					
Cash and Cash Equivalents	\$ 16,626	\$ 12,376	\$ 30,904	\$ 9,381	\$ 69,287
Total Assets	<u>16,626</u>	<u>12,376</u>	<u>30,904</u>	<u>9,381</u>	<u>69,287</u>
<b>Liabilities</b>					
Accounts Payable				103	103
Total Liabilities				<u>103</u>	<u>103</u>
<b>Fund Balance</b>					
Restricted	16,626	12,376	30,904		59,906
Committed				9,278	9,278
Fund Balances	<u>16,626</u>	<u>12,376</u>	<u>30,904</u>	<u>9,278</u>	<u>69,184</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 16,626</u>	<u>\$ 12,376</u>	<u>\$ 30,904</u>	<u>\$ 9,381</u>	<u>\$ 69,287</u>

See the accompanying notes to the financial statements.

Knott County School District  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds**  
Year ended June 30, 2015

	<b>Other Governmental Funds</b>				
	<b>Capital Outlay</b>	<b>Construction Fund</b>	<b>FSPK Fund</b>	<b>District Activity</b>	<b>Total</b>
<b>Revenues</b>					
From Local Sources					
Property Taxes	\$ -	\$ -	\$ 491,222	\$ -	\$ 491,222
Intergovernmental - State	213,818		309,526		523,344
Student Activities				12,255	12,255
Total Revenues	<u>213,818</u>	<u>-</u>	<u>800,748</u>	<u>12,255</u>	<u>1,026,821</u>
<b>Expenditures</b>					
Instruction				2,977	2,977
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,977</u>	<u>2,977</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<u>213,818</u>	<u>-</u>	<u>800,748</u>	<u>9,278</u>	<u>1,023,844</u>
<b>Other Financing Sources (Uses)</b>					
Transfers Out	(310,137)		(802,229)		(1,112,365)
Total Other Financing Sources (Uses)	<u>(310,137)</u>	<u>-</u>	<u>(802,229)</u>	<u>-</u>	<u>(1,112,365)</u>
<b>Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>(96,319)</u>	<u>-</u>	<u>(1,481)</u>	<u>9,278</u>	<u>(88,521)</u>
<b>Fund Balance Beginning</b>	<u>112,945</u>	<u>12,376</u>	<u>32,385</u>	<u>-</u>	<u>157,706</u>
<b>Fund Balance Ending</b>	<u>\$ 16,626</u>	<u>\$ 12,376</u>	<u>\$ 30,904</u>	<u>\$ 9,278</u>	<u>\$ 69,184</u>

See the accompanying notes to the financial statements.

KNOTT COUNTY SCHOOL DISTRICT  
**COMBINING BALANCE SHEET - SCHOOL ACTIVITY FUNDS**  
JUNE 30, 2015

	CORDIA HIGH SCHOOL	KNOTT CO CENTRAL	BEAVER CREEK ELEMENTARY	CARR CREEK ELEMENTARY	EMMALENA ELEMENTARY	HINDMAN ELEMENTARY	JONES FORK ELEMENTARY	SCHOOL ACTIVITY FUND TOTALS
<b>ASSETS</b>								
Cash and cash equivalents	\$ 5,040	\$ 113,556	\$ 16,191	\$ 20,774	\$ 11,681	\$ 42,582	\$ 21,205	\$ 231,028
Total Assets	<u>5,040</u>	<u>113,556</u>	<u>16,191</u>	<u>20,774</u>	<u>11,681</u>	<u>42,582</u>	<u>21,205</u>	<u>231,028</u>
<b>LIABILITIES</b>								
Accounts payable	-	242	-	-	-	-	-	242
Total Liabilities	<u>-</u>	<u>242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>242</u>
<b>FUND BALANCE</b>								
School activities	5,040	113,314	16,191	20,774	11,681	42,582	21,205	230,786
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 5,040</u>	<u>\$ 113,556</u>	<u>\$ 16,191</u>	<u>\$ 20,774</u>	<u>\$ 11,681</u>	<u>\$ 42,582</u>	<u>\$ 21,205</u>	<u>\$ 231,028</u>

See the accompanying notes to the financial statements.



KNOTT COUNTY SCHOOL DISTRICT  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE - SCHOOL ACTIVITY FUNDS**  
YEAR ENDED JUNE 30, 2015

	CORDIA HIGH SCHOOL		KNOTT CO CENTRAL		BEAVER CREEK ELEMENTARY		CARR CREEK ELEMENTARY		EMMALENA ELEMENTARY		HINDMAN ELEMENTARY		JONES FORK ELEMENTARY		AGENCY FUNDS TOTALS	
<b>Revenues</b>																
Student revenues	\$	34,839	\$	434,213	\$	27,442	\$	73,193	\$	41,993	\$	94,960	\$	45,033	\$	751,672
<b>Expenses</b>																
Student activities		44,012		445,083		28,262		68,270		38,815		97,677		42,149		764,267
<b>Excess (Deficit) of Revenues Over Expenses</b>																
		(9,173)		(10,870)		(820)		4,923		3,178		(2,717)		2,884		(12,595)
<b>Fund Balance-Beginning</b>																
		14,212		124,184		17,011		15,851		8,503		45,299		18,321		243,381
<b>Fund Balance-Ending</b>																
	\$	5,040	\$	113,314	\$	16,191	\$	20,774	\$	11,681	\$	42,582	\$	21,205	\$	230,786

See the accompanying notes to the financial statements.

Knott County School District  
**Statement of Revenues, Expenses and Changes in Fund Balance - Cordia High School**  
Year ended June 30, 2015

	<u>FUND BALANCE</u> <u>BEGINNING</u>	<u>REVENUES</u>	<u>EXPENSES</u>	<u>TRANSFERS</u>	<u>FUND BALANCE</u> <u>ENDING</u>
GENERAL FUND	\$ 84	\$ 6,152	\$ 5,638	\$ (377)	\$ 221
INTEREST	-	(48)	-	48	-
POP FUND	859	3,205	3,937	-	127
NABS	148	-	86	-	62
POP TEACHERS ACCT	2,362	2,550	3,444	-	1,468
ELE STLP	4	-	-	-	4
MS & HS STLP	47	1,550	2,418	867	46
GA CONCESSIONS	1,686	1,832	1,662	(1,804)	53
GA EMERGENCY	3,276	294	3,970	413	14
BASEBALL	350	220	2,735	2,166	1
7TH & 8TH B BASKETBALL	-	286	480	194	-
BOYS BASKETBALL	3,406	5,004	6,559	-	1,851
BOYS TRACK	-	-	-	-	-
BOYS V CHEERLEADERS	1,233	-	-	(1,200)	33
BOYS CROSS COUNTRY	6	1,723	1,730	-	-
DANCE TEAM	37	-	-	-	37
ELE CHEERLEADERS	13	-	-	-	13
7TH & 8TH G BASKETBALL	-	489	1,065	580	4
GIRLS BASKETBALL	-	6,756	5,090	(1,630)	36
SOFTBALL	-	200	1,835	1,635	0
GIRLS TRACK	-	-	-	-	-
JUNIOR CLASS	10	-	-	-	10
SENIOR CLASS	-	100	100	-	-
ELE & MS ACADEMICS	266	218	238	(230)	16
HS ACADEMICS	18	1,600	994	(537)	87
YEARBOOK	399	390	500	100	389
FAMILY RESOURCE CEN	5	-	-	-	5
8TH GRADE CLASS	-	300	-	(300)	-
BEGINNING CASH	-	75	150	75	-
KISHA COMBS CLASS	-	1,135	1,133	-	2
LEGO CLUB	-	254	248	-	6
DEANNA JACOBS CLASS	-	553	-	-	553
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 14,212	\$ 34,839	\$ 44,012	\$ (0)	\$ 5,040

See the accompanying notes to the financial statements.

Knott County School District  
**Statement of Revenues, Expenses and Changes in Fund Balance - Knott County Central High School**  
Year ended June 30, 2015

	<u>FUND BALANCE</u> <u>BEGINNING</u>	<u>REVENUES</u>	<u>EXPENSES</u>	<u>TRANSFERS</u>	<u>FUND BALANCE</u> <u>ENDING</u>
GENERAL FUND	\$ 3,900	\$ 14,314	\$ 14,225	\$ (2,424)	\$ 1,565
ID BADGES	5	5	10	-	-
GED	113	-	163	50	-
INTEREST	1,234	1,329	927	(1,164)	473
LOCKERS	424	2,210	1,648	-	986
HALL OF FAME	155	-	155	-	-
ACC GRANT	169	-	169	-	-
CONCESSION	3,981	21,535	13,478	(5,384)	6,653
STAFF ACCOUNT	94	2,984	3,077	-	0
ACADEMIC TEAM	1,541	3,814	2,354	(1,500)	1,501
BETA CLUB	39	705	328	-	416
FCCLA	1,496	2,148	3,048	-	595
FEA	67	-	-	-	67
FFA	2,528	7,152	6,358	677	3,999
NATIONAL HONOR SOCIE	451	1,671	1,373	-	748
PEP CLUB	1,068	35	632	(80)	392
SPANISH CLUB	87	-	-	-	87
SPEECH CLUB	1,695	18,942	15,983	38	4,693
STLP	51	-	-	-	51
ART HONORS	167	-	-	-	167
BAND	2,179	15,929	16,678	(124)	1,307
HONOR CHOIR	-	627	514	22	134
FAMILY CONSUMER SCIE	46	-	200	154	-
SCIENCE LAB	-	1,314	-	-	1,314
SCIENCE	3,897	2,776	3,088	-	3,585
ATHLETICS	11,173	58,097	25,643	(35,757)	7,871
BEG CASH MONEY	-	1,500	1,500	-	-
BASEBALL	29	-	5,483	5,454	-
BASEBALL MIDDLE SCHO	37	8,629	4,519	(37)	4,110
BASEBALL BOOSTERS	25	6,489	6,877	363	-
BASEBALL REGIONALS 1	-	150	-	(150)	-
BASEBALL DISTRICT 14-1	-	1,748	1,740	(8)	-
BOYS BASKETBALL	-	-	7,234	7,234	-
BOYS BASKETBALL BOO	13,179	41,306	38,166	(2,139)	14,180
DANCE TEAM	-	-	-	-	-
FOOTBALL	84	-	7,854	7,770	-
FOOTBALL BOOSTERS	6,974	12,251	13,752	1,211	6,684
FOOTBALL SCOREBOARD	150	-	-	-	150
FOOTBALL ELEMENTARY	5,098	11,070	13,692	-	2,476
GIRLS BASKETBALL	781	-	5,901	5,120	-
GIRLS BASKETBALL BOO	1,100	19,014	18,617	25	1,522
15 GIRL B BALL REGION	-	14,284	11,411	-	2,873
CHEERLEADERS	5,919	36,713	37,231	(260)	5,142
SOFTBALL	752	-	3,234	2,482	-
SOFTBALL BOOSTERS	3,246	3,041	5,998	1,343	1,632
SOFTBALL DISTRICT	363	-	-	-	363
TENNIS	2,169	-	1,375	1,600	2,394
TRACK	150	4,487	6,496	1,859	-
VOLLEYBALL	-	127	4,420	4,703	410
VOLLEYBALL 13 DIST TO	7	-	-	(7)	-
VOLLEYBALL 14 REGION	-	5,682	4,517	(1,165)	-
VOLLEYBALL BOOSTERS	-	11,245	13,053	1,912	104
CROSS COUNTRY	497	250	2,699	2,000	47
ATHLETIC CONTINGENC	42	1,031	961	(26)	85
CLASS OF 2013	253	-	-	(253)	-
CLASS OF 2014	3,852	-	177	(3,675)	-
CLASS OF 2015	-	37,608	44,435	8,535	1,707
CLASS OF 2016	3,904	20,094	23,129	156	1,025
LIBRARY	1,062	776	365	-	1,473
PAGENT	4,855	3,057	4,061	-	3,852
PROJECT GRAD	2,430	7,251	6,042	(40)	3,600
PTO	106	-	106	-	-
SPECIAL OLYMPICS	1,069	154	220	-	1,004
YEARBOOK	14,016	7,551	12,080	(206)	9,281
BAM	125	-	66	-	59
DISTRICT TOURNAMENT	1,433	-	-	(1,433)	-
CCR ACTIVITIES	1,505	-	3,442	1,937	-
CEDAR 2013	-	-	-	-	-
CEDAR	162	-	-	124	285
CEDAR 07	52	-	-	(52)	-
CEDAR-CONN	51	-	-	(51)	-
CEDAR-CONN 2014	20	-	-	(20)	-
CEDAR-CORNETT	-	-	-	-	-
CEDAR-CONN 2015	-	486	486	-	-
TOBACCO AWARENESS	61	-	-	-	61
CHILDREN INC	11,464	18,528	18,589	40	11,443
FOOTBALL JR PRO	265	1,773	1,830	26	234
ICE CREAM	333	-	-	(333)	-
ARI STEM FELLOWSHIP	-	-	1,041	1,500	459
BASS FISHING	-	1,638	1,539	(45)	55
DISTRICT MONEY ACCO	-	694	694	-	-
	<u>\$ 124,184</u>	<u>\$ 434,213</u>	<u>\$ 445,083</u>	<u>\$ -</u>	<u>\$ 113,314</u>

See the accompanying notes to the financial statements.

**KNOTT COUNTY SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Knott County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

**NOTE C – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2015, the District had food commodities totaling \$100,322.

Knott County School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2015

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Program or Award Amount</b>	<b>Expenditures</b>
US Department of Agriculture				
Passed Through State Department of Education:				
* <b>School Breakfast Program</b>	10.553			
Fiscal Year 14		7760005 14	\$ N/A	\$ 138,006
Fiscal Year 15		7760005 15	N/A	444,253
* <b>National School Lunch Program</b>	10.555			
Fiscal Year 14		7750002 14	N/A	245,393
Fiscal Year 15		7750002 15	N/A	761,435
* <b>Summer Food Service Program for Children</b>	10.559			
Fiscal Year 14		7740023 14	N/A	22,762
Fiscal Year 14		7690024 14	N/A	2,347
Child Nutrition Cluster Subtotal				<u>1,614,196</u>
 <b>Fresh Fruits &amp; Vegetables</b>	10.582			
Fiscal Year 14		7720012 14	N/A	21,354
Fiscal Year 15		7720012 15	N/A	68,316
				<u>89,670</u>
<b>Child &amp; Adult Care</b>	10.558			
Fiscal Year 14		7790021 14	N/A	6,361
Fiscal Year 14		7800016 14	N/A	435
Fiscal Year 15		7790021 15	N/A	24,418
Fiscal Year 15		7800016 15	N/A	1,664
				<u>32,878</u>
Passed Through State Department of Agriculture:				
<b>Food Donation-Commodities</b>	10.565			
Fiscal Year 15		510.4950	N/A	100,322
Total US Department of Agriculture				<u>1,837,066</u>
US Department of Education				
Passed Through State Department of Education				
<b>Title I Grants to Local Educational Agencies</b>	84.010A			
Fiscal Year 14		3100002 14	1,191,507	93,924
Fiscal Year 14M		3100002 14	13,000	2,773
Fiscal Year 15		3100002 15	1,131,694	973,675
Fiscal Year 15M		3100002 15	13,000	6,889
				<u>1,077,261</u>
 <b>Special Education Grants to States</b>	84.027A			
Fiscal Year 14		3810002 14	595,749	878
Fiscal Year 15		3810002 15	610,870	577,928
<b>Special Education - Preschool Grants</b>	84.173A			
Fiscal Year 14		3800002 14	65,064	65,064
Special Education Cluster Subtotal				<u>643,870</u>
 <b>Vocation Education - Basic Grants to States</b>	84.048			
Fiscal Year 14A		4621332 14	650	650
Fiscal Year 15		4621332 15	15,440	15,440
				<u>16,090</u>
 <b>21st Century Community Learning</b>	84.287			
Fiscal Year 13J		3400002 13	1,000	1,000
Fiscal Year 13Z		3400002 13	5,000	5,000
Fiscal Year 14		3400002 14	150,000	130,659
Fiscal Year 14U		3400002 14	5,000	5,000
				<u>141,659</u>
 <b>Race to the Top</b>	84.413A			
Fiscal Year 11		3960002 11	53,838	21,873
 <b>Rural Education</b>	84.358B			
Fiscal Year 13		3140002 13	45,469	19,269
Fiscal Year 14		3140002 14	43,358	31,474
Fiscal Year 15		3140002 15	50,011	4,740
				<u>55,483</u>
 <b>Homeless Children &amp; Youth</b>	84.196			
Fiscal Year 14		3990002 14	40,409	5,433
Fiscal Year 15		3990002 15	43,434	43,434
				<u>48,867</u>
 <b>Improving Teacher Quality State Grants</b>	84.367A			
Fiscal Year 14		3230002 14	265,875	5,943
Fiscal Year 15		3230002 15	265,633	263,347
				<u>269,289</u>
 <b>Elementary School Counseling Program</b>	84.215E			
Fiscal Year 13		5323	352,644	2,698
Fiscal Year 14		532A	353,694	238,089

See the accompanying notes to the schedule of expenditures of federal awards.

Knott County School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2015

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Program or Award Amount</b>	<b>Expenditures</b>
				<u>240,786</u>
Passed through Morehead State University <b>Appalachian Higher Education Network (KY AHED)</b> Fiscal Year 15	23.011	688A	5,000	2,725
Passed Through Kentucky Valley Educational Cooperative <b>Race to the Top - District</b> Fiscal Year 15	84.416A	B416A140080	167,529	131,301
Passed through Berea College <b>Gaining Early Awareness and Readiness for Undergraduate Programs</b> Fiscal Year 14G Fiscal Year 15G	84.334A	3794G 379AG	456,676 505,878	857 303,397 <u>304,253</u>
Total US Department of Education				<u><u>2,953,457</u></u>
<b>Total Expenditure of Federal Awards</b>				<b>\$ <u>4,790,522</u></b>

\* Major program

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Knott County Board of Education and  
State Committee for School District Audits  
Hindman, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Knott County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Knott County School District's basic financial statements, and have issued our report thereon dated November 13, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Knott County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Knott County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Knott County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Knott County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Knott County School District, in a separate letter dated November 13, 2015.

In addition, the results of our tests disclosed no material deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School District's Audit Contract and Requirements or Appendices.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*White & Associates, PSC*

Richmond, Kentucky  
November 13, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY OMB CIRCULAR A-133**

To the Knott County Board of Education and  
State Committee for School District Audits  
Hindman, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited Knott County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Knott County School District's major federal programs for the year ended June 30, 2015. Knott County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Knott County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Knott County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Knott County School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Knott County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**Report on Internal Control Over Compliance**

Management of Knott County School District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Knott County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Knott County School District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*White & Associates, PSC*

Richmond, Kentucky  
November 13, 2015

KNOTT COUNTY SCHOOL DISTRICT  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2015

**SUMMARY OF AUDITOR'S RESULTS**

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Child Nutrition Cluster [CFDA 10.553, 10.555, 10.559]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

**FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings at the financial statement level.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

No findings at the major federal award programs level.

KNOTT COUNTY SCHOOL DISTRICT  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
FOR THE YEAR ENDED JUNE 30, 2015

There were no prior year findings.